

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

PA-03 PRS-01 USIA-12 L-03 H-02 AGR-20 TAR-02 RSR-01

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P 041056 Z MAY 73

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PASS TREASURY, COMMERCE, STR AND FED RESERVE, AND CEA

E. O. 11652: N/ A

TAGS: ETRD

SUBJ: JAPAN' S TRADE SURPLUS PROJECTIONS REVISED DOWNWARD
BY EPA

SUMMARY: FOLLOWING IS UNCONFIRMED PRESS REPORT ON EPA' S
PROJECTION OF BILATERAL TRADE SURPLUS WITH U. S. WHICH
EXPECTED TO DECLINE ONLY \$300 MIL AS RESULT OF REVALUATION
TO SURPLUS OF \$3.7 BIL JFY 73. REPORT INCONSISTENT WITH
ANOTHER EPA ANALYSIS AND GOJ STATEMENTS.

1. JAPAN' S ECONOMIC JOURNAL MAY 1 CITING " SOURCES
CLOSE TO ECONOMIC PLANNING AGENCY" REPORTS JAPAN' S TRADE
SURPLUS WITH U. S. IN JFY 73 IS ESTIMATED AT \$3.7 BIL ON
IMF BASIS. DESPITE 10 PERCENT DOLLAR DEVALUATION AND YEN
REVALUATION, TRADE WITH U. S. IN JFY 73 IS EXPECTED TO
REGISTER ONLY MODEST DECLINE OF \$300 MIL FROM COMPARABLE
SURPLUS OF \$4 BIL IN JFY 72. THIS ASCRIBED TO FOLLOWING
FACTORS: U. S. EXPORTS (E. G. FOOD PRODUCTS AND RAW
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AND PROCESSED MATERIALS) ARE NOT INCOME ELASTIC AND THEREFORE WILL NOT BENEFIT GREATLY FROM JAPAN'S ECONOMIC BOOM. IN CONTRAST, JAPAN'S EXPORTS SUCH AS MACHINERY AND EQUIPMENT ARE HIGHLY INCOME ELASTIC AND WILL BENEFIT GREATLY FROM U. S. ECONOMIC BOOM. ARTICLE CONCLUDES: "OWING TO SUCH A SITUATION, IT APPEARS CERTAIN THAT THE PROBLEM OF RESTORING THE BALANCE IN TRADE BETWEEN THE TWO COUNTRIES WILL COME SHARPLY INTO THE LIMELIGHT AFRESH AT JAPAN- U. S. PRELIMINARY TRADE TALKS IN MAY, THE NEXT MEETING OF THE JAPAN- U. S. JOINT COMMITTEE ON TRADE AND ECONOMIC AFFAIRS SCHEDULED IN TOKYO FOR JUNE, AND THE TANAKA- NIXON TALKS SCHEDULED FOR JUNE OR JULY."

3. EMBASSY UNABLE TO CONFIRM EXISTENCE OF THESE EPA ESTIMATES WHICH DO NOT CONFORM TO RECENT PM TANAKA STATEMENT IN TIME INTERVIEW THAT BILATERAL SURPLUS EXPECTED TO BE \$2.7 BIL IN CY 73. HOWEVER, FINATT DID DISCUSS SIMULATION OF 10 PERCENT YEN REVALUATION (WEIGHTED AVERAGE) UTILIZING MACRO-ECONOMETRIC MODEL UNDERLYING THE NATL ECONOMIC FIVE- YEAR PLAN 1973-77. RESULTS OF SIMULATION INDICATE SUBSTANTIAL REDUCTION IN GLOBAL TRADE SURPLUS WHICH IN SHARP CONTRAST WITH EPA BILATERAL PAYMENTS PROJECTION MENTIONED IN PARAS 1 AND 2. COPIES OF EQUATIONS GIVEN TO CEA MEMBERS DURING RECENT CONSULTATION.

4. RESULTS OF SIMULATION SUGGEST \$1.7 BIL REDUCTION IN TRADE SURPLUS IN JFY 77 FROM ORIGINAL PLAN ESTIMATE OF \$12.4 BIL SURPLUS. REDUCTION IN JFY 73 ALMOST AS LARGE AT \$1.4 BIL. THIS RESULT LARGELY DUE TO SHARP REDUCTION IN EXPORTS BELOW THOSE ORIGINALLY PROJECTED IN PLAN. IMPORTS INCREASED SOMEWHAT IN JFY 73, BUT DECLINED SLIGHTLY IN JFY 77 UNDER SIMULATION. ON OTHER HAND, CURRENT ACCOUNT SURPLUS REDUCED BY ONLY \$442 MIL IN JFY 77 AND \$835 MIL IN JFY 83 UNDER SIMULATION.

5. SIMULATION OF YEN REVALUATION, AS WELL AS CRAWLING PEG (OF 2 PERCENT YEN APPRECIATION ANNUALLY DURING FIVE- YEAR PLAN PERIOD) ALONG WITH SIMULATION OF OTHER GOVT POLICIES LIKELY TO BE UNDERTAKEN FOLLOWING GOVT APPROVAL OF PLAN (E. G. INCREASE IN DISCOUNT RATE, INCREASED SOCIAL SECURITY PAYMENTS, LARGER GOVT INVESTMENT AND CONSUMPTION, INCREASE IN CORPORATE INCOME TAX AND INDIRECT TAX RATES) TO BE PUBLISHED WITHIN TWO WEEKS AS KIND LIMITED OFFICIAL USE

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OF ADDENDUM TO NATL ECONOMIC PLAN WHICH GOVT HAS ALREADY APPROVED.

6. COMMENT: WHILE EMBASSY UNABLE TO RECONCILE RESULTS OF SIMULATION WITH JAPAN ECONOMIC JOURNAL REPORT AT THIS TIME BELIEVES IT USEFUL FOR WASHINGTON AGENCIES TO BE APPRAISED OF THIS UNCONFIRMED REPORT PRIOR TO MAY 7 TRADE TALKS WITH

JAPANESE.
INGERSOLL

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